

**Paper-14: Indirect and Direct - Tax Management**

**Whenever required, the candidate may make suitable assumptions and state them clearly on the answers.**

**Working notes should form part of the relevant answer.**

**[Answer Question No. 1 (carrying 25 marks), which is compulsory and any five from the rest]**

**Question 1.**

**Fill up the blanks:**

**[1×25]**

- (i) According to Section 2(3) of the Customs Act, 1962, baggage includes unaccompanied baggage but does not include \_\_\_\_\_.
- (ii) Section 13 of the Customs Act, 1962 provides that, if the pilfered goods are restored to the importer after pilferage, the importer shall \_\_\_\_\_.
- (iii) In the case of goods imported or exported by post, any label or declaration accompanying the goods which contains the description, quantity and value thereof shall be deemed to be \_\_\_\_\_ for import or export, as the case may be, for the purposes of the Customs Act, 1962.
- (iv) Section 117 of the Customs Act, 1962 provides general penalty to a person who contravenes any provisions of the Act or abets in contravention and if no penalty has been prescribed, the penalty would be up to \_\_\_\_\_.
- (v) Under the provisions of the Central Excise Act, 1944, if a registration certificate is granted by the central excise authorities, it will \_\_\_\_\_, unless it is suspended or revoked by the appropriate authority or is surrendered by the person/ company concerned or it ceases to be valid on the death of the individual owner.
- (vi) The application for refund under Section 11B of the Central Excise Act, 1944 has to be filed within \_\_\_\_\_.
- (vii) In the fifteen digit registration number (Excise Control Code), under the Central Excise Act, 1944, the first ten characters represent \_\_\_\_\_.
- (viii) Rule 6 of the Central Excise Rules, 2002 governs \_\_\_\_\_.
- (ix) Under Section 2(f) of the Central Excise Act, 1944, 'Labelling or re-labelling' of containers and re-packing from bulk packs to retail packs of natural or artificial mineral waters shall be considered as \_\_\_\_\_.
- (x) The Customs, Excise, Service Tax Appellate Tribunal (CESTAT) may in its discretion, refuse to admit an appeal where the amount of fine or penalty determined does not exceed \_\_\_\_\_.
- (xi) A company whose gross total income consists mainly of income which is chargeable under the heads, 'Income from house property', 'Capital Gains' and 'Income from other sources' is called a/an \_\_\_\_\_ (Investment Company; Section 25 Company; Foreign Company).
- (xii) \_\_\_\_\_ of the Constitution of India provides that no tax shall be levied or collected except by the authority of law (Article 265; Article 268; Article 269).
- (xiii) The Bill of Entry for ex-bond clearance from warehouse on payment of customs duty, is of \_\_\_\_\_ (Green; Yellow; White) colour.
- (xiv) Under Section 4A of the Central Excise Act, 1944, the assessable value will be calculated on the basis of \_\_\_\_\_ (Transaction Value; Maximum Retail Price Less Abatement; Maximum Retail Price).

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- (xv) Section 271A of the Income Tax Act, 1961 provides for a penalty of \_\_\_\_\_, in case the assessee fails to keep, maintain or retain books of accounts, documents, etc., as required under Section 44AA of the Income Tax Act, 1961. (₹25,000; ₹50,000; ₹1,00,000).
- (xvi) No disallowance under Section 40(a)(ia) of the Income Tax Act, 191, shall be made to a deductor, in respect of expenditure incurred in the month of March, if the TDS of such expenditure has been paid before \_\_\_\_\_ ( 31<sup>st</sup> March; the due date for filing of the return; 30 days from the date of tax deduction).
- (xvii) Under Section 13 of the Customs Act, 1962, duty is not payable on pilfered goods, only in case where the goods are pilfered after unloading but before the issue of \_\_\_\_\_ (Order of clearance; Speaking Order).
- (xviii) Under Section 3 of the Central Excise Act, 1944, duty is not levied on goods produced/ manufactured in \_\_\_\_\_ (Special Economic Zone; Free Trade Zone; 100% Export Oriented Undertaking).
- (xix) Section 61 of the Customs Act, 1962 provides for warehousing in the case of capital goods intended for use in any 100% export oriented undertaking (EOU) till the expiry of \_\_\_\_\_ ( 1 year; 3 years; 5 years).
- (xx) Section 11BB of the Central Excise Act, 1944 provides for the payment of interest @ 6% per annum on refund of duty, which is not paid to the applicant within \_\_\_\_\_ from the date of receipt of application (30 Days; 1 Year; Three months).
- (xxi) In excise, if entire sale is made through 'related person', price relevant for valuation will be 'normal transaction value' at which the related buyer sales to unrelated buyer, as per rules \_\_\_\_\_ (9 and 10; 1 and 9; 2 and 10) of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.
- (xxii) Fixed education allowance given in cash by the employer to the employee to meet the cost of education of the family members of the employee is exempt from tax to the extent of ₹ \_\_\_\_\_ (300; 100; 200) per month per child for a maximum of two children.
- (xxiii) An assessee who has opted for the scheme of computing business income under section 44AD of the Income-tax Act on presumptive basis at the rate of \_\_\_\_ (10; 8; 5) percent of turnover, shall be exempted from payment of advance tax related to such business.
- (xxiv) In case of VAT, every registered dealer who is liable to pay tax under the Respective State Acts, and whose turnover does not exceed ₹ \_\_\_\_\_ (50 lakhs; 100 lakhs; 25 lakhs) in the last financial year, is generally entitled to avail the Composition Scheme.
- (xxv) Cenvat credit is \_\_\_\_\_ (available / not available) on Countervailing Duty paid on imported goods, if the imported goods are used in the manufacture of final products or provision of output service.

### Answer:

- (i) Motor Vehicles.  
(ii) Be liable to pay duty.  
(iii) 'Entry'.  
(iv) One Lakh Rupees.  
(v) Have Permanent Status.  
(vi) One year from the relevant date.  
(vii) The Permanent Account Number (PAN) allotted by the Income Tax Department.  
(viii) Self-assessment of duty.  
(ix) Deemed Manufacture.  
(x) One Lakh Rupees.  
(xi) Investment Company.  
(xii) Article 265.  
(xiii) Green.

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- (xiv) Maximum Retail Price Less Abatement.
- (xv) ₹25,000.
- (xvi) The due date for filing of the return.
- (xvii) Order of clearance.
- (xviii) Special Economic Zone.
- (xix) 5 years.
- (xx) Three months.
- (xxi) 9 and 10
- (xxii) 100
- (xxiii) 8
- (xxiv) 50 lakhs
- (xxv) available

### Question 2.

(a) From the following particulars compute the 'Income from House Property' of Mr. Mitra for the Assessment Year 2014 - 2015 :

Mr. Mitra inherited a property on 1.4.2010 from which gross rental income is ₹ 30,000 per year. Municipal Tax of the property is ₹ 1,000 per quarter of which 50% is borne by the tenant Mr. Mitra took loan of ₹ 80,000 from a bank for heavy repairing of the property out of which he spent ₹40,000 for his sister's marriage and the balance spent for repairing of the property. He paid during the year 2013-2014 ₹ 6,000 as interest on bank loan and spent ₹100 per month for collection of rent.

[7]

### Solution

**Computation of Income from House Property of Mr. Mitra for the A.Y. 2014-2015 relating to the previous year 2013-14**

Particulars	₹	₹	₹
<b>Income from House Property</b>			
House (fully let-out)			
Gross Annual Value	30,000		
Less : Municipal Tax (1,000 x 4) x 50%	2,000		
Less: Deduction u/s 24(a)		28,000	
30% of Net Annual Value on Standard Deduction	8,400		
Deduction u/s 24(b)			
Interest on Loan $(6,000 \times \frac{40,000}{80,000})$	3,000		
		11,400	
<b>Total Income from House Property</b>			16,600

**Notes :** 1. Municipal tax paid by tenant is not allowable deduction.

2. Interest on loan will be allowed in proportion to the loan used for the Building.

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(b) From the following information of Mr. A. S. Ghosh, compute the income from salary for the Assessment Year 2014-15.

(1) Net salary ₹ 1,20,000. (2) Amount deducted from salary at source ₹ 10,000 for employee's contribution to R.P.F. and for rent ₹ 500 p.m. (3) Bonus ₹ 10,000 (4) Dearness allowance ₹ 12,000. (5) Conveyance allowance ₹ 5,000. (6) Medical allowance ₹ 4,000. (7) Employer's contribution to R.P.F. @ 13% on basic plus D.A. (8) Interest on R.P.F. @ 14% is ₹ 5,600.

He has been provided a rent-free accommodation at Kolkata including furniture costing ₹50,000. [8]

**Solution:**

**Computation of Income from salary of Mr. A. S. Ghosh, a resident individual, for the Assessment Year 2014-15 relating to previous year 2013-14.**

Particulars	₹	₹	₹
Net Salary	1,20,000		
Add: Amount deducted from salary - Employee's contribution to R.P.F.	10,000		
Rent	6,000		
Basic Salary		1,36,000	
Add: Dearness allowance		12,000	1,48,000
Add: Bonus			10,000
Add: Medical allowance			4,000
Add: Conveyance allowance		5,000	
Less: Exemption u/s 10(14)		5,000	Nil
Add: Employer's contribution to R.P.F. (1,48,000 x 13%)		19,240	
Less: 12% of salary (1,48,000 X 12%)		17,760	1,480
Add: Interest on R.P.F. (excess of 9.5%)			1,800
Add: Rent-free furnished accommodation [u/s. 17(2)(ii)] (1,62,000 X 15%)		24,300	
Add: 10% of cost of furniture (50,000 X 10%)		5,000	
		29,300	
Less: Rent deducted		6,000	23,300
Income from Salary			1,88,580

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### Question 3.

(a) Following transactions took place in the factory of Arvind Ltd. —

- (i) An imported consignment of Raw Materials was received vide Bill of Entry dated 2<sup>nd</sup> Dec, showing the following Customs Duty payments —
 

Basic Customs Duty	₹ 23,000
Additional Duty (CVD)	₹ 20,000
Special Additional Duty	₹ 5,800
- (ii) A consignment of 1,000 kgs of inputs was received. The Excise Duty paid as per the invoice was ₹ 10,000. While the input was being unloaded 50 kgs were damaged, and were found to be not usable.
- (iii) Some inputs for final product were received. These were accompanied by a certified Xerox Copy (photo copy) of Invoice No. 356 dated 23<sup>rd</sup> Dec. indicating the Excise duty of ₹ 6,400 has been paid on inputs. The original for duplicate copy of invoice are not traceable.

Indicate the eligibility of CENVAT Credit under the CENVAT Credit Rules, 2004 with explanations where necessary. [7]

**Solution:**

**Eligibility of Cenvat credit**

Situation	Eligible Amount	Reasoning
Imported Consignment	₹ 25,800	Countervailing Duty for Excise Duty and VAT Equivalent will be eligible for credit under CENVAT Credit Rules. Basic Customs Duty of ₹ 23,000 is not eligible.
Loss of Inputs	₹ 9,500	<ul style="list-style-type: none"> <li>Inputs used in the manufacture of dutiable finished products alone are eligible for CENVAT Credit.</li> <li>When inputs are damaged irretrievably before usage in the manufacturing process, duty attributable to such goods cannot be claimed as CENVAT Credit.</li> <li>Therefore, duty for 950 Kgs alone is eligible for CENVAT Credit = ₹ 10,000 x 950 Kgs used / 1,000 Kgs received.</li> </ul>
Inputs received under Photocopy of Invoice	₹ 6,400	<ul style="list-style-type: none"> <li>Duty can be claimed only if inputs have been received and documents evidencing payment of duty is available.</li> <li>CENVAT Credit is allowable on Photostat copies of authenticated invoices. [Kothari General Foods Corpn Ltd 144 ELT 338 (Tri.)]</li> </ul>
<b>Total Credit</b>	<b>₹53,700</b>	

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- (b) M/s. Mili Pvt. Ltd., not an SSI unit, purchased fibre 10,000 kg @ ₹ 50 per kg plus excise duty. The said fibre was used to manufacture intermediate product yarn. The said yarn was captively used for the manufacture of fabrics. The said fabric was exempt from duty. The other information are as follows:

- (i) Normal processing loss: 2% of inputs in manufacture of yarn
- (ii) Rate of excise duty on all products is 12.36%;
- (iii) Assessable Value of yarn: ₹ 80 per Kg.;
- (iv) Assessable Value of Fabric (Total): ₹ 13 lakhs;
- (v) Colouring Dyes used in the manufacture of Fabric: ₹ 2 lakhs plus excise duty.
- (vi) Duty on Capital Goods imported during the period and used in the manufacture of yarn: Basic Customs Duty ₹ 20,000; Additional duty of customs under section 3(1) of the Customs Tariff ₹ 30,000; Additional duty of customs under section 3(5) of the Customs Tariff Act ₹ 10,000.

Compute - (i) CENVAT Credit available; (ii) Duty payable.

[8]

### Solution:

Since the final product 'fabrics' is exempt from duty, hence, the intermediate product 'yarn' shall be liable to excise duty. Thus, the CENVAT Credit of raw material fibre shall be available.

The relevant computations are as follows—

	(Amounts in ₹)
(1) Excise duty on yarn : (10,000 kg - 2% Normal Loss = 9,800 kg) x ₹ 80 per kg x 12.36%	96,902
(2) CENVAT Credit:	
(a) On raw material fibre 10,000 kg x ₹ 50 per kg x 12.36% [WN-1]	61,800
(b) Colouring Dyes [WN-2]	---
(c) Capital goods used in the manufacture of yarn are eligible for 50% credit as follows -	
Basic Customs Duty is not eligible for Cenvat credit.	---
Additional Customs Duty u/s 3(1) of CTA - Eligible for 50% credit in the current year and the balance in subsequent year	15,000
Additional duty of customs u/s 3(5) of CTA - Eligible for 100% credit in current year	10,000
<b>Total Credit [2(a) + 2(b) + 2(c)]</b>	<b>86,800</b>
<b>(3) Duty payable in cash [1 - 2]</b>	<b>10,102</b>

### Working Notes:

1. Normal loss of inputs is incurred in factory and in relation to manufacture; hence the same shall also be eligible for Cenvat Credit.
2. Colouring Dyes used in the manufacture of fabric shall not be eligible for credit as fabric is exempt from duty.

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### Question 4.

(a) Miss Titir started a business of manufacturing cosmetic goods. She incurred the following expenses before the commencement of her business:

S.N.		₹
(i)	Expenses for market survey	25,000
(ii)	Legal charges for drafting an agreement with other for setting up her business	20,000
(iii)	Expenses for preparation of feasibility report	15,000
(iv)	Expenditure for raising loan for the business	4,000

Her business was started on 1.7.08:

Book value of assets on 31.3.09 were:

S.N.		₹
(i)	Building	10,00,000
(ii)	Machinery	10,00,000
(iii)	Furniture	4,00,000
(iv)	Stock	4,00,000
(v)	Patent	1,00,000

Calculate the allowable preliminary expenditure for the Assessment Year 2014-15.[8]

**Solution:**

**Calculation of the cost the project:**

	₹
Building	10,00,000
Machinery	10,00,000
Furniture	4,00,000
	24,00,000

Eligible Amount of preliminary expenses:

	₹
Expenses For Market Survey	25,000
Legal charges for drafting agreement	20,000
Expenses for Preparation of feasibility report	15,000
	60,000

Qualifying amount for deduction u/s 35D lower of the following two:

	₹
(a) 5% of the cost of the project i.e. ₹ 24,00,000 x 5%	1,20,000
(b) Actual amount of preliminary expenses	60,000
Deduction for A. Y. 2014-15 u/s 35D is $\frac{1}{5}$ th of ₹ 60,000	12,000

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(b) Compute the duty payable under the Customs Act, 1962 for an imported machinery based on the following information:

- (i) Assessable value of the imported equipment US \$ 12,000.
- (ii) Date of Bill of Entry 25.03.2014 basic customs duty on this date 20% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = ₹ 65.
- (iii) Date of Entry inwards 21.03.2014 Basic customs duty on this date 16% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = ₹ 57.
- (iv) Additional duty payable under Section 3(1) and (2) of the Customs Tariff Act, 1975: 15%.
- (v) Additional duty under Section 3(5) of the Customs Tariff Act, 1975: 4%.
- (vi) Education Cess @ 2% in terms of the Finance (No. 2) Act, 2004 and secondary and higher education cess @ 1% in terms of the Finance Act, 2007.

Make suitable assumptions where required and show the relevant workings and round off your answer to the nearest Rupee. [7]

**Solution:**

Computation of Duty

	Duty		Total
	Rate	₹	₹
Assessable Value (US\$ 12,200 x Rate of exchange in force on date of presentation of bill of entry i.e., ₹65)	---	---	7,87,800.00
Add: BCD [As per section 15(1)(a), rate of duty prevalent on date of presentation of bill of entry or date of entry inwards, whichever is later, shall be applicable. Therefore, rate prevalent on 25-03-2013 viz. 20% shall be taken.]	20.00%	1,57,560.00	1,57,560.00
Add: Additional duty i.e., CVD u/s 3(1) (excise duty excluding EC and SHEC due to exemption)	15.00%	1,57,560.00	9,45,360.00
		1,41,804.00	1,41,804.00
Add: Education Cess @ 3% on DUTY sub-total upto last stage	3.00%	2,99,364.00	10,87,164.00
		8,981.00	8,981.00
Add: Special CVD u/s 3(5) @ 4% of total value (including duty)	4.00%	3,08,345.00	10,96,145.00
		43,846.00	43,846.00
Total (rounded off on nearest rupee)		3,52,191.00	11,39,991.00

5. (a) An importer imported some goods for subsequent sale in India at \$ 30,000 on CIF basis. Relevant exchange rate as notified by the Central Government ₹60. The item imported attracts basic duty at 10% and education Cess as applicable. If similar goods were manufactured in India, Excise Duty payable as per Tariff is 14% plus education Cess of 2% and SAH 1%. Special Additional Customs Duty is 4%. Find the total duty payable. [7]

**Solution:**

Calculation of duty payable:

	(₹)
CIF value USD 30,000 X 60	18,00,000
Add: Loading and unloading @1%	18,000



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Assessable Value	18,18,000
Add: Basic Customs Duty @10% on ₹18,18,000	1,81,800
	19,99,800
Add: Additional Customs Duty [@14% x ₹19,99,800]	2,79,972
	22,79,772
Add: Education Cess 2% on (₹ 1,81,800+ ₹ 2,79,972)	9,235
Add: SAH @1% on (₹ 1,81,800+ ₹ 2,79,972)	4,618
	22,93,625
Add: Special Additional Customs Duty [@4% x ₹22,93,625]	91,745
Total value of imported goods	23,85,370

Therefore total duty payable ₹5,10,634.

**Notes:**

- While calculating CVD we should not take into account NCCD of excise.
- CVD can also be imposed even if there is exemption from Basic Customs Duty.
- Imported goods contain more than one classification and the importer is unable to give the breakup of each item with value then the highest rate of duty among them will be considered.
- CVD can be levied only when the importer imported manufactured goods. It means CVD can be levied only if goods are obtained by a process of manufacture [Hyderabad Industries Ltd v Union of India (1995) (SC)].

**(b) State with reasons whether service tax will be levied or not on the interest in relation to overdraft, cash credit, bill discount or exchange in the region of Banking and financial services.**

**[3]**

**Answer:**

In the context of Banking and other financial instructions, the Hon'ble Tribunal in State Bank of Indore v. CCE 2011 (23) STR 346 (Tri) held that interest in relation to overdraft, cash credit, bill discount or exchange was exempted under Notification No. 29/2004-ST, dated 22.09.2004. The mere fact that the bank did not show separately in the invoice the interest is not very factual to avail the exemption in view of the fact that the assessee, the banking company was regulated by RBI guidelines and public norm requires disclosure of bank's earning, Therefore, the Tribunal held that subject to the appellant adducing evidence as required by the Notification, the matter should stand remanded to the adjudicating authority for passing appropriate order.

**(c) Determine the Point of Taxation in each of following independent cases in accordance with point of Taxation Rules, 2011.**

S. No.	Date of actual provision of service	Time [date] of Invoice, Bill or Challan as the case may be	Date on which payment received
1	10.04.2013	30.04.2013	06.04.2013 (part) and 16.04.2013 (remaining)

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2.	10.04.2013	12.05.2013	30.04.2013
3.	10.04.2013	12.05.2013	05.04.2013 (part) and 25.04.2013 (remaining)
4.	10.04.2013	22.05.2013	12.06.2013

[5]

**Solution:**

**Point of Taxation for the different cases:**

S. No.	Date of completion of service	Time [date] of Invoice, Bill or Challan as the case may be	Date on which payment received	Point of Taxation	Remarks
1.	10.04.2013	30.04.2013	06.04.2013 (part) and 16.04.2013 (remaining)	06.04.2013 and 16.04.2013 for the respective amounts	Invoice issued within 30 days. Part payment (in the form of advance received before issue of invoice and remaining payment received after completion of service)
2.	10.04.2013	12.05.2013	30.04.2013	10.04.2013	Invoice not issued within 30 days and payment received after completion of service
3.	10.04.2013	12.05.2013	05.04.2013 (part) and 25.04.2013 (remaining)	05.04.2013 and 10.04.2013 for the respective amounts	Invoice not issued within 30 days. Part payment received as advance before completion of service and remaining payment received subsequently
4.	10.04.2013	22.05.2013	12.06.2013	10.04.2013	Invoice not issued within 30 days and entire payment received after completion of service

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### Question 6.

- (a) Gopal Care Ltd. imported a lift from England at an invoice price of ₹17,50,000. The assessee had supplied raw material worth ₹7,50,000 to the supplier for the manufacture of said lift. Due to safety reasons, the lift was not taken to the jetty in the port but was unloaded at the outer anchorage. The charges incurred for such unloading to ₹25,000 and the cost incurred on transport of the lift from outer anchorage to the jetty was ₹50,000. The importer was also required to pay ship demurrage charges ₹10,000. The lift was imported at an actual cost of transport ₹45,000 and insurance charges ₹20,000.
- Compute its assessable value. [5]

### Solution:

Particulars	Amount (₹)	Amount (₹)
FOB value being the invoice price		17,50,000
Add: Raw material supplied by assessee under Rule 10(1)(b)		7,50,000
<b>FOB Value</b>		25,00,000
Transportation under Rule 10(2) [WN-1]		
Add: Sea Freight	45,000	
Add: Ship demurrage charges	10,000	
Add: Lighterage	25,000	
Add: Barge charges	50,000	1,30,000
Add: Actual cost of insurance		20,000
<b>CIF Value</b>		26,50,000
Add; Landing Charges @ 1% [WN-2]		26,500
<b>Assessable Value</b>		26,76,500

### Working Notes:

- (1) The cost of transport of the imported goods includes the ship demurrage charges on chartered vessels, lighterage or barge charges.
- (2) The landing charges @1% of CIF value relate to loading, unloading and handling charges at port.

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(b) Mr. Rajendra Sinha, an individual, furnishes the following information, relating to the assets and liabilities as on 31.03.2014:

Sl. No	Particulars	Amount (₹)
(i)	Plot of land at Mumbai, comprising an area of 1200 square meters, (on which building has been constructed without the approval of the appropriate authority).	50,00,000
(ii)	Building constructed on land at Mumbai, without the approval of the appropriate authority, and used for his business purposes.	20,00,000
(iii)	Two residential house properties, (one of the house properties is used for the purpose of business, by Mr. RajendraSinha)	10,00,000 (each)
(iv)	Urban Land was purchased in August 2011 located in Pune, in the name of his son who is suffering from a disability specified under Section 80U of the Income Tax Act, 1961. The age of his son on 31.03.2014 was 17 years.	5,00,000
(v)	House located in Ahmedabad, shown in his wealth-tax return for the A.Y 2013-14 at ₹50 Lakh was sold on 20.03.2014 for ₹60 Lakh, but the sale deed thereof was executed on 03.04.2014.	55,00,000
(vi)	Motor cars held as stock-in-trade.	75,00,000
(vii)	Gold jewellery brought into India from Singapore, where he was residing, on his return to India on 01.11.2009, for permanently residing in India.	12,00,000
(viii)	Jewellery made of platinum.	18,00,000
(ix)	Jewellery gifted to wife from time to time, were available with her on the valuation date. The jewellery was acquired for ₹10 Lakhs.	35,00,000 (Fair Market Value)
(x)	Interest in the coparcenary property of the Hindu Undivided Family, of which he is a member.	25,00,000
(xi)	Cash in hand, recorded in the books of account.	10,00,000
(xii)	Fixed Deposits in a co-operative bank.	20,00,000
<b>Liabilities</b>		
(xiii)	Loan borrowed for marriage of daughter	12,00,000
(xiv)	Loan borrowed for construction of building at Mumbai	10,00,000

The minor married daughter of Mr. RajendraSinha holds a plot of land at Bhopal, valued at ₹40 Lakhs. The amounts stated against the assets, except cash in hand, are the values determined as per Section 7 of the Wealth Tax Act, 1957 read with Schedule III thereto.

Compute the net wealth of Mr. RajendraSinha, as on the valuation date 31.03.2014.

State the reasons for inclusion, or exclusion of the various items.

[10]

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**Solution:**

**Assessee: Mr. RajendraSinha**

**Valuation Date: 31.03.2014**

**Assessment Year: 2014-15**

### Computation of net wealth

Sl. No.	Particulars	Note	Amount (₹)	Amount (₹)
<b>ASSETS (as per the definition of "Assets", under Section 2(ea) of the Wealth Tax Act, 1957)</b>				
(i)	Plot of land in Mumbai.	1		50,00,000
(ii)	Building constructed on land at Mumbai, without the approval of the appropriate authority.	2		NIL
(iii)	Residential house properties.	3		NIL
(iv)	Urban Land was purchased in Pune, in the name of his son who is suffering from a disability specified under Section 80U of the Income Tax Act, 1961.	4		NIL
(v)	House located in Ahmedabad, which has already been sold.	5		NIL
(vi)	Motor cars held as stock-in-trade.	6		NIL
(vii)	Gold jewellery brought into India from Singapore	7		NIL
(viii)	Jewellery made of platinum.	8		18,00,000
(ix)	Jewellery gifted to wife	9		35,00,000
(x)	Interest in the coparcenary property of the Hindu Undivided Family	10		NIL
(xi)	Cash in hand, in excess of ₹50,000	11		9,50,000
(xii)	Fixed Deposits in a co-operative bank	12		NIL
<b>(A) TOTAL ASSETS</b>				<b>1,12,50,000</b>
<b>LESS:</b>	<b>Liabilities</b>			
(xiii)	Loan borrowed for marriage of daughter	13		NIL
(xiv)	Loan borrowed for construction of building at Mumbai	14		NIL
<b>(B) TOTAL LIABILITIES</b>				<b>NIL</b>
<b>(C) NET WEALTH [(A)- (B)]</b>				<b>1,12,50,000</b>

**NOTE:**

1. Plot of land at Mumbai, comprising an area of 1200 square meters, (on which building has been constructed without the approval of the appropriate authority), is an asset under Section 2(ea) of the Wealth Tax Act, 1957, and is therefore, included in the computation of the net wealth of the assessee. Since, the plot of land comprises an area of more than 500 square meters, it is not eligible for exemption under Section 5(vi) of the Wealth Tax Act, 1957.
2. Building constructed on land at Mumbai, without the approval of the appropriate authority, is not an asset under Section 2(ea) of the Wealth Tax Act, 1957, since the building is being used for the purposes of business.
3. The assessee owns two residential house properties. One of the house property shall be exempt from the levy of wealth tax. This is so because, a house used exclusively for residential purpose is treated as an 'Asset' under Section 2(ea) of the Wealth Tax Act, 1957, but is exempt under Section 5(vi) of the Wealth Tax Act, 1957.  
The other house property shall also be exempt from the levy of wealth tax, because, the residential property is used for the purposes of business.
4. Urban Land is an asset, by virtue of Section 2(ea)(v) of the Wealth Tax Act, 1957. However, since, the same is in the name of his minor son, who suffers from a disability specified under Section 80U of the Income Tax Act, 1961, the clubbing provisions are not applicable as per Section 4(1)(a)(ii) of the Wealth tax Act, 1957.
5. The house property, located in Ahmedabad, was sold during the year and is, therefore, not an asset of the assessee, but is an asset of the beneficial owner, since ownership of the property passes on sale of property and execution of sale deed only confirms the act of the parties.
6. Motor cars held as stock-in-trade do not fall within the Meenakshiew of the definition of an 'Asset', under Section 2(ea) of the Wealth Tax Act, 1957, and hence, is not chargeable to wealth tax.
7. Gold jewellery brought into India on 01.11.2009, from Singapore is exempt under Section 5(v) of the Wealth Tax Act, 1957, for seven successive assessment years, beginning with the Assessment Year 2010-11.
8. Jewellery made of platinum, is an asset under Section 2(ea) of the Wealth Tax Act, 1957, and is, therefore, included in the net wealth.
9. The fair market value of the Jewellery gifted to wife, will be included in the computation of the net wealth of Mr. Rajendra Sinha, as per the provisions of Section 4(1)(a)(i), read with Rule 18 of Schedule III of the Wealth Tax act, 1957.
10. Interest in the coparcenary property of the Hindu Undivided Family, of which Mr. Rajendra Sinha is a member, is exempt under Section 5(ii) of the Wealth Tax Act, 1957.
11. Cash in hand, in excess of ₹50,000, is includible in the net wealth of an individual, whether such cash is recorded in the books of account, or not.
12. Fixed Deposits in a co-operative bank do not constitute 'assets' within the meaning of Section 2(ea) of the Wealth Tax Act, 1957, and is hence, not included in the computation of the net wealth of the assessee.
13. Loan borrowed for marriage of daughter, is not deductible, since, only loans in relation to assets (under Section 2(ea) of the Wealth Tax Act, 1957) are deductible.

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14. Since, building constructed in Mumbai, is used for business purposes, it is excluded from the computation of the net wealth of the assessee. Hence, the loan taken for construction of such property shall also not be admissible as a deduction.
15. Assets held by a minor married daughter are not includible in the computation of the net wealth of the any parent under Section 4(1)(a)(ii) of the Wealth Tax Act, 1957. Hence, the value of plot of land at Bhopal, held by the minor married daughter, does not form part of the net wealth of Mr. Rajendra Sinha.

### Question 7.

(a) Compute the net VAT liability of Ritesh using the information given as follows:-

Raw material purchased from foreign market (including duty paid on imports @ 20%):

₹ 13,200

Raw material purchased from local market (including VAT charged on the material @ 4%):

₹ 22,880

Raw material purchased from neighbouring state (including CST paid on purchases @ 2%):

₹ 7,854

Storage, transportation cost and interest: ₹ 2,750

Other manufacturing expenses incurred: ₹ 660

Ritesh sold the goods to Binay and earned profit @ 10% on the cost of production. VAT rate on sale of such goods is 12.5%. [5]

### Solution:

Computation of net VAT liability (₹)

Imported goods (import duty is not eligible as Input credit, hence, import duty will form part of cost)	13,200
Local purchases [Input VAT is eligible for credit, hence, it will not form part of cost] [Total Price inclusive of VAT ₹ 22,880 – VAT $22,880 \times 4 \div 104 = 22,880 - 880 =$ ₹ 22,000]	22,000
Purchases from other state (CST is ineligible for credit, hence, it will form part of cost)	7,854
Storage, transportation, interest and other manufacturing expenses [2,750 + 660] [Interest has been included in cost of production, assuming that it is an interest on working capital and operating expenditure; in any other case, it will not form part of cost of production.]	3,410
Total Cost	46,464
Add: Profit @ 10 % on cost	4,646
Sale Price	51,110
Add: VAT @ 12.5% on sale price	6,389
Total Invoice Price	57,449
VAT on Sales	6,389
Less: Credit of VAT paid on local purchases	880
VAT payable in cash	5,509

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**(b) List out the member of Approval Committee under Special Economic Zones Act, 2005. [5]**

**Answer:**

Every Approval Committee shall consist of :

- (i) the Development Commissioner-Chairperson, ex officio;
- (ii) two officers of the Central Government to be nominated by that Government-Members, ex officio;
- (iii) two officers of the Central Government to be nominated by that Government to represent the Ministry or Department dealing with revenue-Members, ex officio;
- (iv) one officer of the Central Government to be nominated by that Government to represent the Ministry or Department dealing with Economic affairs (financial services)-Member, ex officio;
- (v) two officers of the State Government concerned to be nominated by that State Government- Members, ex officio;
- (vi) a representative of the Developer concerned-Special invitee.

**(c) Compute the service tax liability from the following particulars for the financial year 2013-14:**

Particulars	Amount(₹)
Gross Amount (excluding all taxes) charged by the service provider for providing works contract service	1,50,000
Actual Value of material transferred in the above works contract (VAT under the relevant State VAT Law has been paid on this value)	1,05,000
Excise Duty paid on Inputs	13,125
Service Tax paid on input services	1,500
Excise Duty paid on the capital goods, purchased during the year, used in the provision of works contract service	1,500
Rate of Service Tax	12.36%

[5]

**Solution:**

**Computation of Service Tax Liability as per Rule 2A(i) of the Service Tax (Determination of Value) Rules, 2006:**

Particulars	Amount(₹)
Gross Amount charged by the service provider for providing works contract service	1,50,000
Less: Actual Value of material transferred in the above works contract	1,05,000
<b>[ NOTE-1]</b>	
Value of service portion in the execution of works contract	45,000
Service Tax on ₹45,000 @ 12.36%	5,562
Less: CENVAT Credit on Inputs	
<b>[ NOTE-2]</b>	---
Less: CENVAT Credit on input services	1,500



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Less: CENVAT Credit on the capital goods (50%)	[ NOTE-3]	750
<b>Service Tax payable</b>		<b>3,312</b>

**NOTES:**

1. Since VAT has been paid on the actual value of property in goods transferred in the execution of the works contract, such value adopted for the purposes of payment of VAT has been taken as the value of the property in goods transferred in the execution of the said works contract [Clause (c) of Explanation to Rule 2A(i) of the Valuation Rules].
2. CENVAT Credit of duties or cess paid on any inputs, used in or in relation to the said works contract, is not available. [Explanation to Rule 2A) of the Valuation Rules].
3. Only 50% of the duty paid on the capital goods is available as CENVAT Credit, in the current year [Rule 4(2)(a) of the CENVAT Credit Rules, 2004].